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Prepared for the purpose of briefing the
new Director

11 January 1973

MEMORANDUM FOR: Mr. Bronson Tweedy
Mr. Thomas A. Parrott

1. Following our discussions of yesterday, I felt the need to put down, in the hope that it would be helpful to you, some thoughts about the IC tasks and particularly as they relate to the principal problem coverage you outlined for discussion with the new Director. Hopefully, this will also help you in seeing in your own mind the significance of the various diverse observations made yesterday by staff on our work focus. The danger of doing what I am about to do is to leave with you the impression that one is singularly narrow in viewpoint. I assure you that I am greatly impressed with the eclectics of our tasks and probably preoccupied with personal concern that these many variables are not being related to a total concept or objective as well as they might be.

2. A careful reading of the background papers, coupled with considerable discussions with the authors of the 5 November directive, clearly emphasize the causes for their concern: the growth and diffusion of all intelligence activities of government and their competition for defense dollars promoted increased attention from the specialized units of the OMB addressing intelligence in the International Division. The mass of data being acquired, the cost of handling this data, and results in terms of cost/effectiveness and substantive return kept slipping the grasp of OMB year after year. These conditions were also arrayed against a perceived slippage in the White House confidence of the analytic product. Jim Schlesinger spent well over a year probing the substance and form of these issues. He, as one of the principal architects of the 5 November directive, fully understood the pattern and ingredients of intelligence, the personalities and executive styles, the practical legislative considerations in making any change, and the need for better analysis in the expenditure decision process which, I believe, he realized OMB could not achieve for intelligence. Thus, the various aspects of the 5 November directive, which introduce change, are singularly easy to trace. The intent is to centralize and better focus the continuous and controversial choices which must be made to reach an appropriate political and economic composition for intelligence expenditure and to improve the responsiveness and accuracy of the

CONFIDENTIAL

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product. The DCI was handed the task of introducing his analytic posture on these decisions and help the President decide. (The DCI role in the MOL decisions probably went a long way to convince OMB of the merit of his input in the power circle of White House politics.)

3. Given these realities, the 5 November paper recognizes a number of interesting real-world operating prerequisites. First, it is concerned with the behavioral and institutional diffusions one finds in intelligence. Indeed, the term "intelligence community" is an anomaly since the organizational processes, in fact, have no cohesiveness as one force of government. Obviously, that organization problem was too big, in the face of the political considerations, to cope with directly. Thus, the 5 November directive looks to the traditional bureaucratic means - the provision of committees to create bodies where the hard choices could be faced up to and where feedback and direction could be sought. By making these bodies directly or indirectly responsive to a centralized coordinator - the DCI charge - cohesiveness could begin. Thus, the creation of the IRAC, NSCIC, and the preservation of the USIB and ExCom.

4. In terms of your early discussions with the new Director, one major task of the DCI/IC, against which his impression of the staff effectiveness can be measured, is how well have the Committee involvements been promulgated so as to exploit the processes of participative management implicit in their creation and to bring about new patterns of relationships which address intelligence substance and costs. As you have suggested, the new DCI must be given a status report on what we have done in the constructive use of those devices he created as an author of the paper and some measure of opinion on the effectiveness of the device in bringing about involvement and the crossing of organizational barriers and authorities. Have they indeed offered help to the cross-program thrust? (As you know, I am prepared to address the nature, content, and meaningfulness of the IRAC studies, and we should be able to editorialize in an informal manner at that session.)

25X1 5. The authors of the paper introduce, via NSCID revisions and involvement early in the process, another traditional tool designed to restructure authority relationships, i.e., rewriting and redirection of the NSCIDs and the DCIDs. No doubt, in a year's effort, we have identified the key authority relationships which will support the philosophy behind the 5 November directive. We may properly have expanded on the precepts also. Accordingly, a report on how effectively the IC staff is restructuring these "general articles" should be of considerable interest to the new DCI. I believe realistically one must realize that formalization of authority relationships through legal instruments like DCIDs can only have a modicum of impact on effectiveness as such and, no doubt, the new Director will have his own views to discuss with you in these matters. These revisions provide a tool for recording but it does not of course improve the product per se nor help the DCI determine the best mix of resources for intelligence.

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~~CONFIDENTIAL~~

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25X1 You should be ready to defend the concepts as they are reflected in the revisions, especially as they pattern the next few years. While I have only been on the sidelines in the work undertaken for you by Tom Parrott and [] it is evident that this part of our task has not progressed very well.

6. The third task of the directive, and one on which we spent most of our discussion yesterday and on which I feel you expect me to be thoroughly involved, is the requirement to provide a "Consolidated Intelligence Program Budget." This wording and catch-all package requires an output of the DCI. It gets to the guts of the directive, i.e., provides the President with a pattern of resources and a priority of work objectives. Program budgeting per se introduces clearly the DCI to a strengthening and centralization of intelligence resource review, both substantive and cost-wise.

7. There still seems to be, based on yesterday's discussions, some confusion among several members about what task that document portends. Here we find what I referred to earlier as the "eclectics" of the IC staff task.

8. My attempts to spell out in the following paragraphs how I see the charge are not meant to be presumptuous, but rather are submitted as another input in your effort to get a cohesive understanding of the various views that relate to our work as expressed in our session yesterday. It also documents more clearly my concern with or use of the so-called "zero base" terminology which some of the staff have advocated. Later in this paper, I will specifically address what zero base means from a budgetary viewpoint. Schlesinger defines it quite differently in a systems context. One must be certain how we use the term.

25X1 9. Program budgeting is relatively new in the long effort to quantify and evaluate output of the public sector. It derives from the continued effort, since 1939, by the Bureau of the Budget (OMB) to improve their techniques of evaluation for financial analysis and policy analysis, and from the introduction into contemporary budget-making of the concepts and methods of economic analysis along with its offspring, systems analysis. [] reference to the process as "Systems politics and Systems budgeting," I believe essentially describes what we are dealing with here. It is important that all IC principals appreciate that with the introduction of the carefully selected terminology "Consolidated Intelligence Program Budget" comes a very significant message representing a large part of the new DCI's role. Program budgeting has four partially separable objectives in my view. (This does not suggest that each objective stands alone or that organizationally we should support them in separate comments and treat them as specialties.

CONFIDENTIAL

CONFIDENTIAL

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In fact, my bias is quite the opposite and experience across the Government; I think, will demonstrate that organizational separation among these objectives creates communication obstacles and breaks down effectiveness in reaching all four.) The objectives are not listed in a priority sense.

10. The first objective of program budgeting is taxonomic - the classification of goals and objectives for all intelligence activities, their primary tasks, outputs, and costs. This classification presumes a system which moves the content and objectives forward in a program and budgetary context in such a way as to give visibility to the manager for central allocation decisions.

11. The second objective of program budgeting involves analysis and the discovery of ways to review and weigh intelligence programs and allocations in a total sense. This involves comparing cost as acquired from the taxonomic procedures with outcomes, and the exploration and presentation of alternative means and mixes for achieving the outcomes. It involves cost benefit analysis. In its thrust it is the primary instruction of the Directive - "tell the President the options and their values." Thus, this part of program budgeting is substantive in scope. It would dictate, if the directive were properly implemented, that the DCI present to the President, without regard to organizational authorities or appropriation structure, a program which reflects cross-program alternatives and mixes as they relate to likely outcomes, along with risks and evaluations on each option. (The OMB concept paper prescribed the format and cluttered this up somewhat in my view.) Here we find a major tool in [] processes, i.e., the search for a relative value scale that will be useful in giving us a ball-park appreciation for various implications to outcomes of given allocations. This relative value scale, in the purest sense, offers the decision maker an overall guide which is foremost in setting a course of action or identifying areas in which further research and analysis in specific programs seem warranted. It is important to appreciate that all of these types of systems require, and indeed demand, a discipline of information flow, commonality of definition, and an accounting and substantive weighing of cost and result. The issue of a management information system relates, in part, to this second objective as well as to the first. [] understandably, suggests that the relative value scale should be the major preoccupation of the DCI and his staff, leaving to the program managers the micro-analytic task and, in their program context, the decisions of budget making and program management. As far as IC is concerned, he would avoid these micro matters except as their implications reflect in the profile of the macro model.

12. [] impression of the main chore is incorrect and oversimplified. In the course of the next paragraphs, it will become apparent why one must review the overall charge of the 5 November directive in the context of the total Government management arena and systems (micro and macro) - why change agents of analysis such as special studies, etc., are essential in both the systematic and human aspects of the intelligence management process.

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CONFIDENTIAL

CONFIDENTIAL

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13. A third objective of program budgeting is that of projection. I think of this as market analysis or the "environmental scan." This involves a long-range planning process for intelligence planning and budgeting. It is an attempt to predict the implication of the future as it may have a bearing on the way we do business, focus on today's decisions in the budget, and build new capability. It involves financial projection, operating projections and substantial assessments of the various threat parameters, etc. It also involves the problems intelligence must address in a wide range of fields. (Note today's projections are quite different from that perceived at the outset of the National Security Act of 1947.) For our purposes, it involves some realistic assessment of the role of intelligence and the intelligence product being collected as this will serve policymakers over time and in the widest range of international matters but, at least in the near future, predominately Defense-related.

14. The fourth objective, and integral to all of the above, is evaluation of performance and outcome of the elements being funded. No holding company president would survive long without measuring the various outcomes and "profits" being derived from the number of diverse production operations over which he presides. Accordingly, like him, a DCI really must have an analytic element concerned with both the micro and macro evaluations of the holding company, the product and costs of each ingredient. He must have reporting tools and counseling panels to help him stay on top of these matters and assure he is professionally advised, especially in technical fields. He must have machinery (the program budget process, requirements, supervision, etc.) to translate these evaluations into control situations. I believe he should use existing albeit improved community mechanisms to get there and not build a large IC super structure which is not involved in the daily product.

15. Note: Significant decisions in the intelligence processes may not be linked with the program budgeting processes as described above, so one must avoid the danger of falling in love with his model or assuming that the written word or focus, as set down in the 5 November directive, is all inclusive. It is not.

16. An even more intriguing aspect of the use of the term "Consolidated Intelligence Program Budget" in the directive is seen when one relates program budgeting concepts to the organizational pattern it portends and, particularly, as these in turn relate to the DCI's centralized leadership role.

17. Program budgeting is an instrument for centralized resource decisions. It is intended to be a technique of policy analysis as well as a technique of management overview and modest control. It introduces an inevitable transfer of authority (information is control) and strengthens central decision authority. Thus, in the earlier paper that Jim Schlesinger wrote (March 1971), there are addressed the implications of the creation of an ASD(I) and of DCI authority leadership.

CONFIDENTIAL

CONFIDENTIAL

Approved For Release 2005/12/05 : CIA-RDP82M00531R000400240001-8

(It is significant to note that the ASD(I) is left out of any of the finalized directives issued in November.) Accordingly, the preparation of a "Consolidated Intelligence Program Budget" immediately ran into opposition from Defense managers, the Secretary, the Comptroller, and others, even within CIA and State. The President's charge clearly threatened autonomy. It was clear to most of us that any aggressive implementation of the DCI to invoke the authority granted him by the directive for program budgetary overview would require far more involvement in the decision processes of the community program than Defense was prepared to accept. The first remonstrations were over the issue of tactical intelligence. Even Program III areas were debated. Accordingly, the direct approach to the charge was discarded early as a DCI policy and we were instructed to play the game the first year by participative involvement. As a practical matter, there was little else to do. But you will recall, in presenting you with alternative procedures, [] and I outlined the first option to the program budget task which would involve the Director issuing early guidance and undertaking more direct oversight of the program review from this building. Lest anyone had any doubt, the kind of possibility implicit in this first option is something which Defense still fears may be brought about, albeit probably through a series of more subtle change agents. Stated otherwise, and implicitly expressed in my preparation of the NIPM, to which Laird reacted so violently, if DoD autonomy is not reduced in the intelligence field so as to be directly and thoroughly responsive to the DCI, and if these processes are not tidied up with substantive depth, the program budgeting process, as suggested by the requirement of a Consolidated Program Budget, becomes merely an ineffectual reporting process without visible DCI impact on budgetary decisions and with low probability that effective cross-program comparisons and evaluations will be accomplished. Essentially, this year's efforts bear me out. This is not to downgrade this first year's efforts but we are only at the edge of the system and results, while impressive, are far from adequate. The new DCI will discover this when he reads our products.

18. Yesterday we debated with [] about the relevance of IRAC and other studies and involvement of substantial judgments of resource use questions. Analytic studies, I believe, should be looked upon not as ends in themselves but as devices which I have promoted because they are essential to keeping things moving, to avoiding a rigidity of process, and to providing visibility to specific issues, even when such visibility is resented. No one expects either the studies or any other analysis and evaluation machinery to always result in a choice consistent with the findings. The studies' value is that they ask a series of questions and array information in an orderly and analytic fashion. By so doing, they impact on a reaction pattern of managers and may in some instances even intrude on their sense of survivability. They can become hot potatoes. They cannot be left to the

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CONFIDENTIAL

CONFIDENTIAL

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program managers to exercise on their own initiatives. If study findings are cranked into the program budget review process, along with relative value model profiles and other such tools, as IC staff should be developing for allocation decisions, managerially, their impact on the reaction pattern of program directors is likely to cause change - at least incremental and subtle but also occasionally direct. This has been my experience in study and practice and it can be demonstrated very concretely in CIA's patterns.

19. The DCI's weight of position and personality are also key to study effectiveness and acceptance. The DCI can draw attention to the results of analysis, [REDACTED] which can have an impact. But he must follow it up and be prepared to confront the issue in the budget decision process in a far more persuasive way than we have to date. While polite admonitions have impact on reaction patterns, bureaucratic organizations instinctively react by closing down on the information flow as reflected in Mr. Laird's behavioral pattern to the DCI's letter. In turn, these reactions, unless defended against, can mitigate against the overall objective of advising the President of the best mix. The need for continuing account executives, as you call them, to keep charging around asking questions, promoting studies, etc., is to keep the DCI's presence known and viable. It is an integral part of bringing about the responsive changes the 5 November directive wants. The only question is the degree to which a given director wishes to have his interrogators out stirring the ashes. You may wish to assess the new Director's view of this aspect of our work.

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20. Traditionally, since the advent of the so-called "performance budget" concept, U.S. budgets have been presented functionally, insisting on an explanation of goals, long-run costs, and output definitions. If one examined the structuring of the CIRIS process, we also find the traditional functionalization capability has been sought. Last year we presented to Congress the Intelligence Community input requirements on a functional basis attempting to relate outputs from these functions to selected end-product requirements. Cross-program emphasis, both in budgetary management and in the context of analysis, focused on output and targets, permits better strategy development, policy analysis, and ultimately allocation. But these profiles are not covered in the information or accounting requirements which now exist in the intelligence entities, or the budget process of OMB or Congress. Some progress has been made and, indeed, in the staff investment in CIRIS, a capability to derive some of the information in an aggregate sense does exist. It is important that we all recognize that the accounting structure and information systems used in DoD are designed to support organizational and functional approaches. They do not easily adapt to accommodate a cross-program approach focusing on targets and outcomes and they are

CONFIDENTIAL

CONFIDENTIAL

Approved For Release 2005/12/05 : CIA-RDP82M00531R000400240001-8

not likely to be changed materially for some time, if ever. Such change, other than by direct alteration, can occur through "insistence" by our analytic teams that information and cost be arrayed in a cross-program functional approach and on an issue-by-issue basis, i.e., all costs for a total system and a relationship of outcomes to these costs. But, such insistence would be fruitless without strong IRAC and DCI support.

21. I believe, "incremental issue oriented" or "functional base review" is useful but it is not all inclusive. It leaves out many resources, particularly "support resources," and, thus, is not the end-all. It can be a constructive approach if IC sets down precisely where we want particular reviews to go and what analysis we seek. [] has done in his paper on the ABM systems what I believe is the kind of study IC should do. We need more of it. But, the study without follow-up is not very useful. IC has a follow-up role. We also need to be exploring new ways to get at evaluation and forcing them into manager's natural patterns for decision. Such products and strategy development should have a very direct bearing on the program review positions taken by the DCI in either his own forum with IRAC or in whatever relationship we continue to have with the program review processes of the departments. Other approaches, including simulation, Delphic, etc., need to be tried as well in our cross-program evaluation and independent analysis to develop better procedures and studies. We need to plan a better program of work on these counts.

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22. The subject of tactical intelligence is clearly one you must discuss with the new Director. We both understand the reason and politics influencing Dick Helms in deferring to Al Hall on tactical intelligence. I suspect that the new Director cannot do the same thing and must insist on getting "intelligence related" issues defined and included in his memo to the President. That some arrangement has to be made for a tactical intelligence product, whatever it may be, will involve the IC staff to some degree in staffing the Director for Congress. Last year, we received only the poorest quality of information on objectives and thrust and, in the tactical field, nothing. There seems to be no cohesiveness in the Defense Department in handling tactical intelligence. It seems to me, that the new Director would be well advised to put in writing a specific call on the Secretary of Defense for identification of whatever definitions they like to use for the investments and resources being spent throughout the Defense Department on tactical intelligence. He must be ready for Congress in the next months and, thus far, the follow-up on this matter has been very weak. I believe the new Director must appreciate this point and address the issue in Congress. (I suggest that early on he hold an IRAC meeting with program managers to address policy on congressional presentation.)

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23. I have not addressed the question of better product which is also contained in your overall list. Obviously, this is something IC must be aggressive about. I suggest that there is a direct relationship between the manner in which we do our program budgeting job and the managerial and structural changes and coordination of such things as training, security, etc., with improved product. The matter of product improvement involves both a short-run and a long-run program and reaches to the very guts of what the next generation of intelligence analysts and their methodologies will encompass. It is a most intriguing aspect of the directive but one in which IC staff per se can only be catalytic and probably can have only modest impact.



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Attachment:

Definition of "Zero Base Review"

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Definition of "Zero Base Review"

In budgetary parlance, the term "Zero Base Review" means that the entire amount of a budget is explained or "justified." In other words, there is no acceptance of any part of the budget. It is as if an entirely new program was being proposed for the first time. A zero base review would examine and require rejustification of (1) the mission or function, (2) expected results, and (3) the resources (manpower, money, and material) required to carry out the project.

The antithesis of a zero base review is an explanation or justification of the changes from the previous year. For example, not talking to the reason for the "x" number of personnel which cost "y" dollars the previous year but simply talking to the additional amount required because of a pay raise or an extra day or some other minor difference between years.

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